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ANNUAL REPORT

OF THE

PRESIDENT

TO THE

STOCKHOLDERS OF THE

PACKARD MOTOR CAR COMPANY

TOGETHER WITH

CERTIFIED CONSOLIDATED BALANCE SHEET

1921

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AUGUST 31, 1921

Our sales could have been greatly increased had we been willing to make ruinous trades and cut prices as recklessly as some of our competitors. I feel sure we could have doubled the number of our sales had we not adopted the policy of reasonable conservatism in trading used cars and trucks. Our policy has been to limit trading, as nothing spells greater danger to dealers and to manufacturers than to acquire a big inventory of used cars and trucks. While the result of imposing this policy upon our dealers and distributers has substantially limited sales, it has had the great advantage that it has brought our dealers through a very trying year in much better financial condition than dealers in automobiles generally throughout the country.

PROPERTY ACCOUNT

During the year just ended, expenditures for permanent plant items have been kept to a minimum. Approximately $800,000.00 was expended during the year for new patterns, dies and tools for the Single-Six car. The balance of the amount expended for factory plant items was made up of final payments on plant additions started during the preceding fiscal year.

The increase in branch plant properties consists of amounts expended during the year to complete retail service stations at Chicago, Springfield, and Detroit.

During the year both the factory and branch plant properties have been maintained in standard condition, and adequate depreciation on these properties has been charged off.

SINKING FUND FOR RETIREMENT OF GOLD BONDS

In accordance with the provisions of the Indenture of Trust, covering the debenture gold bonds recently issued, there was deposited with the Trustee, prior to the close of the fiscal year, the sum of $250,000.00, which was to be utilized for the purchase of bonds of the Company in the open market. As you will note from the Balance Sheet, the Trustee, as at August 31, 1921, had expended $139,175.00 for the purchase of bonds of a par value of $146,500.00.

ACCOUNTS RECEIVABLE

Due to the smaller volume of business transacted, Accounts Receivable carried by the Company are much less in amount than last year. The accounts consist of amounts due by distributers to the factory for vehicles shipped on a sight-draft-bill-of-lading basis, and for service parts shipped on thirty-day open account basis, in addition to amounts due from customers of retail branch houses for parts, accessories and repair work. Adequate allowance has been made for all doubtful accounts.

DEFERRED INSTALLMENT NOTES AND BILLS RECEIVABLE

This item is somewhat less than last year, and consists for the most part of notes carried by branch houses representing deferred payments on vehicles sold on time.

MARKETABLE SECURITIES

Marketable securities of the Company consist of miscellaneous stocks and bonds taken in the course of business, amounting to $178,123.56, and United States Certificates of Indebtedness of early maturities amounting to $5,800,000.00.

OUTSTANDING CAPITAL STOCK

During the year, in accordance with the provisions under which the stock was issued, there have been purchased and retired, 4,337 shares of the Preferred Stock of the Company, of a par value of $433,700.00.

No change has taken place in the amount of Common Stock outstanding.

The Company now has 5,600 stockholders, an increase of 786 during the year.

CURRENT LIABILITIES

Current Accounts Payable and Payrolls show a decided reduction from last year and are at the minimum.

The amount shown on the balance sheet as a liability on account of accrued interest on bonds and other miscellaneous items not due is entirely adequate to take care of all cash liabilities of the Company which had accrued as at the date of the Balance Sheet but were not due.

RESERVES FOR CONTINGENCIES

A reference to last year's balance sheet will show that as at the close of the previous fiscal year there was set up a "Reserve for Possible Shrinkage in Value of Materials and for Other Contingencies," amounting to $2,500,000.00. During the fiscal year just past the entire amount of this reserve has been used for the adjustment of inventory values, and the Management of the Company, on account of the still unsettled prices of materials, deems it wise to create a further reserve of $2,500,000.00 to take care of any shrinkage in the value of the inventory to be taken on December 31, 1921, and for any other contingencies which may arise.

ENGINEERING OPERATIONS

Engineering activities, while in a measure restricted by conditions previously referred to, have continued throughout the year, and, in addition to improvements incorporated in the Twin-Six Cars and in the Trucks, and the further development of the Single-Six Car, have included the development of a line of Aircraft Engines consisting of a 230 h. p. 8-cylinder engine, a 350 h. p. 12-cylinder engine, and a 600 h. p. 12-cylinder engine. These designs have been proved out through the production of several engines of each type, and completely standardized drawings for each of these models have been made. During the year the Engineering Department has also completed the design and two experimental models of a 300 h. p. dirigible engine for the Navy Department.

During the year the gross sales of aircraft engines and equipment have amounted to $847,329.76.

It is felt that the Company, through the activities of its Engineering Department, has been placed in a position to take advantage of any opportunity which may arise in the future for the production of aircraft engines for commercial or government purposes.

OUR PRODUCTS

The attitude of the public toward Packard products continues extremely favorable. As many people desire to purchase them as even in normal times. Business has fallen off, not for lack of demand, but because prospective buyers felt the need to curtail their expenditures.

The Twin-Six has been established in public favor through six years of its successful manufacture.

Single-Six cars, although in their first year of production, are most highly regarded by those who own them. We do not know of a single dissatisfied owner. On the contrary, the owners without exception as far as we know are enthusiastic in its praise. It is as nearly perfect mechanically as any car that has ever been offered on the market. We have scores of letters from manufacturers, mechanical experts, business men and motor-wise owners attesting their high regard for its merits. It is designed as a light-weight, efficient, economical high-grade car, and in those respects it has proven eminently successful.

IN GENERAL

We have passed through the trying year in excellent financial condition, as the Balance Sheet indicates; our various products are fully developed and perfected; our distributers have held together remarkably well; and we are in position to manufacture and to sell, we believe, on a basis competitive with the best among modern manufacturers. With the organization, in all its branches, working splendidly together, and with a unanimous support and co-operation on the part of the Directors of this Company, the Management looks forward to the future with great confidence.

We are glad to report that since the close of the fiscal year there has been a great increase in the demand for Single-Six cars. October, both in sales and shipments of these cars, was by far the greatest month we have ever had. This evidence of the rapidly growing popularity of this new product insures for it a great future, and is proof that it will be a material factor in the Company's prosperity.

Respectfully submitted,

Alvan Macauley

President.

PRICE, WATERHOUSE & COMPANY
DETROIT

October 25, 1922

To the Directors and Stockholders,
Packard Motor Car Co.

We have examined the books and accounts of the Packard Motor Car Company and its subsidiary companies for the fiscal year ending on August 31, 1922, and certify that the annexed consolidated balance sheet is correctly prepared therefrom.

During the year only expenditures for actual additions and extensions of properties and equipment have been added to the property accounts, and adequate provision has been made for depreciation and accruing renewals.

Inventories of the stocks of finished motor carriages and trucks and stocks of materials, supplies and unassembled parts on hand as certified by responsible officials have been valued at or below cost, all factory or inter-company profits being eliminated.

We have verified by actual count or by certificates obtained from the depositaries the cash and bank balances and securities owned, and have satisfied ourselves that full provision has been made for bad and doubtful accounts receivable and for all ascertained liabilities. A dividend on the preferred stock declared on August 21, 1922, and paid September 15, 1922, is not reflected in the balance sheet. The amount carried forward as deferred charges to future operations represents items which are reasonably and properly chargeable against the profits of future years.

In accordance with the trust indenture relating to the issue of ten-year 8% gold bonds, the Company has deposited an amount of approximately $250,000.00 each quarter with the trustee and there has been retired during the year bonds of a par value of $1,095,000.00. In addition, bonds of a par value of $1,358,000.00 have been purchased for redemption, and at August 31, 1922, were held in the Treasury.

Upon the above basis, *WE CERTIFY* that, in our opinion, the consolidated balance sheet is properly drawn up so as to show the true financial position of the Company and its subsidiary companies as at August 31, 1922, and the results of their operations for the year ending on that date.

Price, Waterhouse & Company
Public Accountants

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CONSOLIDATED BALANCE S

ASSETS

	Detroit Factory	Branch Properties	Together
Property Account:			
Land, Buildings, Machinery, Plant and Equipment, Depreciated Values at September 1, 1921	$15,444,042.24	$6,152,492.77	$21,596,535.01
Add—Expenditures during the year	2,280,491.79	—32,772.71	2,247,719.08
Together	17,724,534.03	6,119,720.06	23,844,254.09
Less—Amount charged off during the year for depreciation, etc.	2,608,877.65	230,172.14	2,839,049.79
Balance at August 31, 1922	15,115,656.38	5,889,547.92	21,005,204.30
Rights, Privileges, Franchises and Inventions			1.00
Total Property Investment			$21,005,205.30
Sinking Fund for Retirement of Gold Bonds:			
Amount on deposit September 1, 1921	$ 110,825.00		
Amount deposited with Trustee during year	999,326.75	$ 1,110,151.75	
Less—Bonds redeemed during year at cost		1,110,051.75	100.00
Current Assets:			
Inventories at or below cost—			
At Factory—			
Materials, Supplies, Unassembled Parts (Finished and in Process), and Service Stock	9,047,776.33		
Finished Motor Carriages and Trucks	806,555.99	9,854,332.32	
At Branches—			
Service Stock, Accessories and Supplies	917,289.13		
Finished Motor Carriages and Trucks	2,935,466.60	3,852,755.73	
Total Inventories		13,707,088.05	
Accounts Receivable (Net)		3,232,219.28	
Deferred Installment Notes and Bills Receivable		1,399,876.10	
Miscellaneous Marketable Securities		924,346.95	
U. S. Certificates of Indebtedness and Liberty Loan Bonds, at Cost	10,215,070.40		
Cash in Banks and on Hand	5,149,271.96	15,364,342.36	34,627,872.74
Deferred Charges to Future Operations:			
Prepaid Insurance, Taxes and Other Expenses, including unamortized proportion of Expenses of Gold Bond Issue			674,912.79
			$56,308,090.83

R CAR COMPANY

RY COMPANIES

HEET AS OF AUGUST 31, 1922

LIABILITIES

Capital Stock:			
Authorized—			
7% Cumulative Preferred— 200,000 Shares of $100.00 each		$20,000,000.00	
Common Stock— 3,000,000 Shares of $10.00 each		30,000,000.00	
		$50,000,000.00	
Outstanding—			
7% Cumulative Preferred— 147,898 Shares of $100.00 each		$14,789,800.00	
Common Stock— 1,188,510 Shares of $10.00 each		11,885,100.00	$26,674,900.00
Ten-Year 8% Gold Bonds (Dated April 15, 1921):			
Amount of Original Issue		$10,000,000.00	
Less—Bonds Redeemed and Cancelled	$ 1,241,500.00		
Bonds Held in Treasury for Redemption	1,358,000.00	$ 2,599,500.00	7,400,500.00
Current Liabilities:			
Current Accounts Payable and Pay Rolls		$ 3,204,694.99	
Accrued Interest on Bonds and Other Miscellaneous Liabilities not yet due		1,273,557.77	4,478,252.76
Reserve for Contingencies:			750,000.00
Surplus:			
Balance at September 1, 1921		$15,923,895.93	
Add—Net Profits and Income for the year ending August 31, 1922		2,115,828.14	
Together		$18,039,724.07	
Deduct—Dividends paid on Preferred Stock—7%		1,035,286.00	17,004,438.07
			$56,308,090.83

PACKARD MOTOR CAR COMPANY
DETROIT, MICHIGAN

Incorporated under the Laws of Michigan

Directors

Frederick M. Alger
Richard P. Joy
Alvan Macauley
Truman H. Newberry
James T. McMillan
Russell A. Alger
Henry E. Bodman

President & General Manager
Alvan Macauley

Vice-President
Russell A. Alger

Vice-President of Engineering
J. G. Vincent

Vice-President of Manufacturing
E. F. Roberts

Vice-President of Distribution
H. H. Hills

Secretary & Treasurer
Frederick R. Robinson

Comptroller
J. J. Marks

Patent Counsel
Milton Tibbetts

Technical Service Manager
H. N. Davock

Subsidiary Selling Companies

Packard Motor Car Co. of New York
Packard Motor Car Co. of Chicago
Packard Motor Car Co. of Philadelphia
Packard Motor Car Co. of Missouri
Packard Motors Export Corporation

Transfer Agents—Union Trust Company, Detroit, Michigan
Guaranty Trust Co. of New York, New York City

Registrars of Stock—Security Trust Company, Detroit, Michigan
National City Bank of New York, New York City

Auditors—Price, Waterhouse & Company

I am able to say that the Company has now a very high present standard of efficiency and economy of manufacture. This new standard will make it possible for the Company to continue to offer its high quality product to the public at very low and strictly competitive prices.

While the Company's operations for the year were not profitable, but, on the other hand, show a loss, it is not felt that, under all the circumstances, this loss is a significant one; as an inevitable shrinkage of inventory values was experienced, in common with all other manufacturers having stocks of materials on hand, coupled with a low volume of business during a great portion of the year.

While the surplus account of the Company shows a reduction of $4,833,776.26 for the year, it must be borne in mind that of this amount $1,346,410.00 was for dividends paid stockholders, and that $2,500,000.00 represents a reserve for future contingencies, leaving $987,366.26, as representing the amount of surplus reduction due to operating losses; $389,347.57 being incurred at Factory and $598,018.69 at the Branches.

ECONOMIES

Early in the fiscal year when it became apparent a depression of serious proportions was upon us, we recognized that a new phase of business was at hand, and we set ourselves to meet it. Every department of the organization, big and little, was carefully re-examined and expense reduced to a minimum. The various departments have been for several years operating on a budget system and a great effort was made to set the budgets so that the expenditures would be in proper relation to the reduced volume of business; wages and salaries were readjusted; none except the most necessary expenditures were authorized and the personnel was very substantially reduced.

The cumulative effect of these economies has been very gratifying, and we are now on a basis to continue operations or expand them at a minimum of expense and expenditure.

This organization, recognizing the necessity of reducing all expenses on account of lessened sales, was able to reduce productive labor and manufacturing expense 68% from the amount expended for these two items during the preceding year. In the purchasing of supplies and materials and in deliveries on orders and contracts placed, it has been possible to obtain price concessions, which have been reflected in a continuous downward trend in material costs.

New material prices, the reduced labor charges, the increased efficiency, and the elimination of overhead and manufacturing expense have warranted us in establishing the new low prices for our products, which we have announced from time to time throughout the year. Wherever practicable, parts made and work formerly obtained from outside sources have been brought into the factory in order that space and equipment which we have available should be used to the best advantage.

SALES

While the volume of our business compared with a year ago shows a substantial reduction in common with nearly all other automobile companies, the published reports of the National Automobile Chamber of Commerce show that we have considerably more than held our own as to the number of sales secured.

At the beginning of the fiscal year, this Company's product was distributed through 245 channels, consisting of branches, distributers and dealers. About 40% of the Company's product is distributed through its branches. The number of outlets has been increased to 372 and efforts are being made—with success—to bring this number up to 500 by the time the Spring demand begins.

The outlook for Single-Six sales for the Fall and early Winter is bright, reports and estimates from our distributers and dealers indicating that we may expect a very large increase in Single-Six business.

The sales of Twin-Six cars, while still below par, are being maintained at a steady rate, with indications of a substantial increase in the early Spring months.

The sale of trucks throughout the year has been sub-normal, due to general prevailing conditions; but despite these conditions, we have been successful in marketing a goodly number. We have the foundations well laid for a thoroughly successful and profitable business.

Detroit, November 7, 1921.

To The Stockholders of the
Packard Motor Car Company:

The position of the Packard Motor Car Company and its subsidiary companies as of August 31, 1921, the close of its fiscal year, is set forth in the certified consolidated balance sheet submitted herewith.

FINANCIAL CONDITION

The general condition of the Company as shown thereby is one of great strength and should be a source of gratification to all holders of the Company's securities. This is particularly true of the Company's cash position. The Company has no bank loans and, outside of strictly current indebtedness, has no liabilities except as represented by its 10-Year Gold Bonds of which $9,853,500 are outstanding and against which the Company has cash in bank and government securities in the amount of $10,323,715.75, or more than sufficient to pay off the entire issue.

The Company's current liabilities of $3,807,342.39 are more than offset by its notes, bills and accounts receivable, aggregating $4,435,253.81.

After setting up as liabilities amounts owing for current purchases and payrolls and reserves for unmatured indebtedness, including interest on bonds, and taking into account $9,853,500.00 of outstanding debenture bonds, and a reserve of $2,500,000.00 for contingencies, the Company's net worth is $42,598,795.93.

After deducting from the Company's net worth the preferred stock, at par, the common stock is shown to have a book value of $23.39 per share.

The Company's statement shows an unusually high ratio of Current Assets to Current Liabilities, viz: approximately 10 to 1, and, if the Company's funded debt is added to its Current Liabilities, the ratio is found to be approximately 3 to 1.

After making the dividend payments shown in the balance sheet, and after creating a reserve for contingencies of $2,500,000.00, the Company has a surplus remaining of approximately $16,000,000.00 represented by assets of substantial value conservatively estimated. It is believed that few companies engaged in the manufacture of motor cars are in better financial condition.

On April 15, 1921, the Company issued $10,000,000 of its 8% debenture gold bonds, or notes. While there was no immediate necessity for the funds realized from this issue of bonds, it was thought the part of wise conservatism to accept the offer which was made to the Company for the purchase of notes of this character, so that in the event of any unforeseen financial stringency, the Company would be in ample funds and not dependent upon bank loans. The entire issue was reported to have been sold within two hours after it was offered to the public, an evidence of the high regard in which the Company is held by the investing public.

THE YEAR'S OPERATIONS

At the end of the Company's fiscal year, August 31, 1920, the Company had just completed the most profitable twelve months in its history. The manufacture of Twin-Six cars and trucks had been at maximum. In the early Fall of 1920, a period of sharp depression set in, affecting all lines of industry. In common with other manufacturers, the Packard Company found itself with a very large inventory of finished and partly finished vehicles and raw materials. This made necessary a sharp curtailment in production until existing stocks had been disposed of. Some of the problems with which the Management has had to concern itself during the past year have been the liquidation of these inventories, the curtailment of production, and the reduction of manufacturing and administration expense to correspond with these new conditions. I am glad to state that the Company has been successful in liquidating its inventory of finished vehicles. All of the cars and all the trucks on hand at the close of the fiscal year, ending August, 1920, have been disposed of and the Company has been thereby enabled to resume the manufacture of both Twin-Six cars and trucks to supply the new demand. Production of Single-Six cars was maintained throughout the year, and the curtailment of the Company's business has been less than the average curtailment of the motor industry.

SPEAKER-HINES DETROIT, MICH.